


AmResearch
Company report

MRCB-QUILL REIT

(QUIL MK EQUITY, QCAP.KL)

21 May 2015

Stronger earnings ahead from Platinum Sentral's contribution

BUY

(Maintained)

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Rationale for report: Company result

Price RM1.16
Fair Value RM1.35
52-week High/Low RM1.33/RM1.08

Key Changes

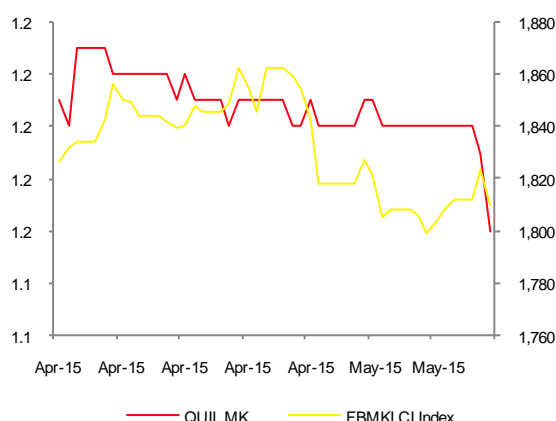
Fair value ⇄
EPS ⇄

YE to Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	70.2	106.9	120.5	122.1
Net profit (RM mil)	40.3	59.6	67.3	68.5
Realised Net profit (RM mil)	34.2	53.6	61.3	62.5
EPU (sen)	8.8	9.0	9.3	9.4
EPU Growth (%)	9.9	(2.8)	1.5	1.7
Consensus EPU (sen)	0.0	8.6	9.3	9.9
DPU (sen)	8.4	8.6	8.8	9.0
PE (x)	11.2	11.6	11.4	11.2
EV/EBITDA (x)	13.7	16.5	15.3	15.1
Div yield (%)	7.2	7.39	7.6	7.7
ROE (%)	7.4	6.8	7.7	7.8
Gearing (%)	35.1	44.1	43.8	43.8

Stock and Financial Data

Shares Outstanding (million)	390.1
Market Cap (RMmil)	452.6
Book Value (RM/share)	1.39
P/BV (x)	0.8
ROE (%)	7.4
Gearing (%)	35.1
Major Shareholders	MRCB(30.3%) CapitaCommercial Trust(17.2%) Quill Group(17.2%)
Free Float	61.0
Avg Daily Value (RMmil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	(5.7)	-	1.8
Relative (%)	(5.8)	0.7	5.7


Investment Highlights

- We reaffirm our BUY recommendation on MRCB-Quill REIT (MQ REIT) with an unchanged fair value of RM1.35/unit, based on a 10% discount to its DCF value of RM1.50/unit.
- MQ REIT's 1QFY15 core net profit of RM8mil met expectations although it accounts for 15% of our full-year estimate of RM54mil, and 16% of consensus estimates.
- Contribution from Platinum Sentral will only be reflected from 2Q onwards as the acquisition was completed on March 30 (9-month contribution for FY15).
- DPU of 1.88sen was reported for 1QFY15.
- Net property income for the 1Q rose by 5% YoY on the back of an 8% rental income growth, attributed to positive rental reversion and high recoveries of several properties.
- Occupancy rate stands at a healthy 93%.
- MQ REIT's FY15F organic growth will be underpinned by:- (1) 25% of total leases, which are due for renewal at QB1, QB3, QB4, and Plaza Mont Kiara; and (2) on-going asset enhancement initiatives works at QB2 and Plaza Mont Kiara.
- About 24% of the leases due for this year were renewed in 1Q, with the bulk of the balance only due in 4Q with negotiations on-going.
- We continue to like MQ REIT as an ideal vehicle for MRCB to house its prime commercial assets within KL Sentral given MRCB's monetisation agenda. In the near term, we believe MRCB is likely to engage in another similar deal to monetise its matured property assets following the recent injection of Platinum Sentral.
- Other property assets under MRCB's stable that could be injected into the REIT are the Shell Tower and Ascott Residences, with a reported cumulatively value of RM900mil. Inclusive of properties owned by Quill Group (i.e. QB6, QB9 and QB18), the collective value is RM1.8bil (for five assets). This would see MQ REIT's total asset value increase by 113% to RM3.4bil.
- At the current level, MRCB-Quill REIT is trading at an attractive yield of 7.4% for FY15F vis-à-vis its sector peers' 6% with a yield spread of 352bps over the 10-year Malaysian Government Securities yield of 3.9%.

EXHIBIT 1: RESULTS SUMMARY

YE 31 Dec (RMmil)	1QFY14	4QFY14	1QFY15	% QoQ	% YoY
Gross rental income	17.2	18.2	18.6	2.3	8.3
Property operating cost	(4.2)	(4.8)	(4.9)		
Net property income (NPI)	13.0	13.4	13.7	2.0	5.1
Interest expenses & interest income	(3.3)	(3.4)	(3.4)		
Other expenses	(1.5)	(1.6)	(2.0)		
Fair value adj.	-	6.1	-		
Net Income before tax	8.2	14.6	8.3	(43.4)	1.4
Taxation	-	-	-		
Net Income	8.2	14.6	8.3	(43.4)	1.4
Less: Fair value adj.	-	(6.1)	-		
Realised income	8.2	8.5	8.3	(2.7)	1.4
EPU (sen)	2.1	2.2	2.1		
DPU (sen)	-	4.3	1.9		
NAV/unit (RM)	1.3	1.3	1.3		
NPI margin (%)	75.7	73.8	73.5		
Pretax margin (%)	47.5	80.4	44.5		

Source: Company, AmResearch

EXHIBIT 3: PE BAND CHART

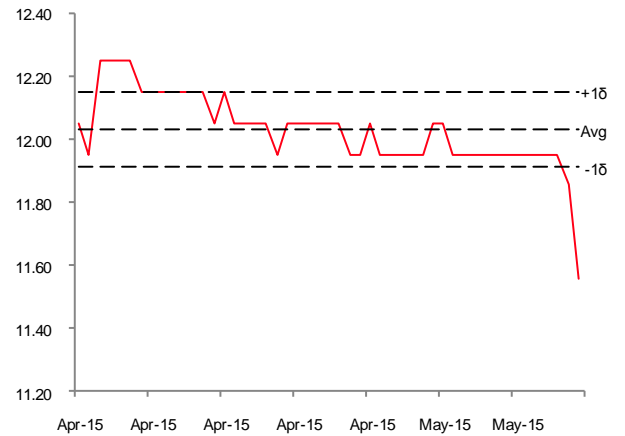


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Gross rental income	68.9	70.2	106.9	120.5	122.1
Revenue from tenancy	68.9	70.2	106.9	120.5	122.1
Other revenue	-	-	-	-	-
Property mgmt fees	(15.7)	(16.9)	(25.7)	(27.7)	(28.1)
Other operating expenses	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net property income	53.2	53.3	81.2	92.8	94.0
Interest income	0.8	0.7	1.2	1.7	1.7
Other income	-	-	-	-	-
Fair value adj	2.1	6.1	6.0	6.0	6.0
Non property expenses	(5.8)	(5.8)	(5.9)	(5.9)	(6.0)
Borrowing cost	(13.7)	(14.1)	(23.0)	(27.2)	(27.2)
Net income before tax	36.6	40.3	59.6	67.3	68.5
Taxation	-	-	-	-	-
Net income after tax	36.6	40.3	59.6	67.3	68.5
Distributable income*	34.5	34.2	53.6	61.3	62.5
*Net income after tax less fair adj					
Balance Sheet (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Cash	30.9	23.3	37.9	77.6	77.5
Trade & other debtors	2.6	6.1	3.5	3.9	3.9
Others	-	-	27.7	-	-
Current Assets	33.5	29.4	69.1	81.5	81.5
Trade & other Creditors	11.7	12.2	18.6	21.0	21.3
Provision for income dist	-	-	-	-	-
Short term Borrowings	5.4	2.3	2.3	2.3	2.3
Others	2.3	2.3	-	-	-
Current Liabilities	19.3	16.8	20.9	23.3	23.5
Net Current Assets/Liab.	14.2	12.7	48.2	58.3	57.9
Fixed assets	-	-	-	-	-
Other Long term assets	-	-	-	-	-
Long-term Assets	826.6	838.9	1,551.6	1,551.6	1,551.6
Total Assets	860.1	868.4	1,620.7	1,633.2	1,633.1
Term loans	304.9	305.1	715.1	715.1	715.1
Other Long term Liabilities	4.8	7.5	7.5	17.5	17.2
Long-term Liabilities	309.6	312.6	722.6	732.6	732.3
Share Capital	411.7	411.7	748.7	748.7	748.7
Reserves	121.7	129.5	128.5	128.5	128.5
Undistributed income	-	-	-	-	-
Shareholders' Funds	533.5	541.3	877.3	877.3	877.3
Total Liab & SF	862.4	870.6	1,620.8	1,633.1	1,633.1
Cash Flow (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	36.6	40.3	59.6	67.3	68.5
Working Capital	1.2	(3.1)	3.7	2.8	0.3
Others	(15.0)	(19.4)	(27.8)	(31.5)	19.5
Operating cash flows	48.6	44.3	79.1	89.7	88.3
Capex	(3.0)	(6.0)	(6.0)	(6.0)	(6.0)
Enhancement exp.	-	-	(740.0)	-	-
Others	-	-	-	-	-
Investing cash flows	(3.0)	(6.0)	(718.7)	(6.0)	(6.0)
Issue of shares	-	-	342.0	-	-
Dividend paid	(32.7)	(32.7)	(50.9)	(58.3)	(59.4)
Borrowings	(117.0)	(15.0)	-	-	-
Others	103.7	1.0	387.0	(27.2)	(27.2)
Financing cash flow	(45.2)	(45.9)	679.3	(83.8)	(84.9)
Net inflows/(outflows)	0.5	(7.6)	39.7	(0.1)	(2.5)

Source: Company, AmResearch estimates

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